



WARRANTY ACCRUAL AND ACCRUAL MANAGEMENT

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With the growing focus on the global economy's health, companies in turn are also closely evaluating their own profitability. One area for potential improvement of product margins is warranty, which is considered as part of the product's 'cost of goods sold.' Valuable points of profitability margin can be lost if the product's true warranty service cost is not actually known or not accurately accounted for. In addition, over or under accruing for a company's warranty liability can also result in misleading financial reporting to internal and external sources highly dependent on the accuracy of this information.

Past historical processes for determining warranty reserve allocations could be characterized as the CFO's 'best guess' as a percentage of product sales. It has been difficult to generate an accurate, predictive picture of warranty performance, so it has been equally difficult to know how much financial reserve will be required to satisfy warranty claims.

The upside is that improved practices now exist enabling better forecasting and evaluation of warranty costs. Existing operational data from within the organization can be leveraged to produce significantly more accurate results in setting and maintaining accurate warranty accrual rates. With better accuracy in forecasting accrual rates, companies can be assured that profitability margins, or worst yet sales, won't be lost to overstated warranty costs.

Participants will learn how to:

- Quantify the impact of inaccurate warranty forecasting on profitability.
- Optimize warranty accruals to ensure accurate financial reporting.
- Understanding of the cost impact of different warranty terms and durations.
- Develop accurate methods for estimating and tracking warranty liability